



12  
CF-46

RECEIVED  
JAN 31 2003  
GROUP 3600

SYSTEMS AND METHODS FOR  
CREATING AND TRADING DYNAMIC SECURITIES

Background of the Invention

- [0001] In recent years, electronic trading systems  
5 have gained a widespread acceptance for trading  
securities. For example, electronic trading systems  
have been created which facilitate the trading of  
financial instruments such as stocks, bonds, currency,  
futures, or other suitable financial instruments.  
10 Other tradeable instruments also include more non-  
traditional commodities such as baseball cards, art  
pieces, and other collectibles.
- [0002] Many investors rely upon mutual funds to  
create a diversified investment base to lower investing  
15 risk. Typically, however, investors in mutual funds  
have no control over the creation of the fund, or the  
selection of individual securities which make up the  
mutual fund basket of securities. Investors in mutual  
funds also are unable to sell the individual components  
20 of the fund.
- [0003] Accordingly, it would be desirable to provide  
systems and methods for electronic trading whereby  
investors may create their own basket of securities,  
including both traditional securities investments as

well as non-traditional securities of any sort, whether it includes commodities, securities, non-securitized items, leases, collectibles, or any other possible tradeable tangible or intangible item.

5 [0004] It would also be desirable that this basket of securities could be traded as a whole, or in the alternative, that its individual components can be isolated and traded separate from the basket as a whole. It would further be desirable to provide  
10 systems and methods for comparing the rate of return of the dynamic security or of its individual components to a pre-determined target rate of return, and for notifying the user if the actual rate of return deviates substantially from the target rate of return.

15 Summary of the Invention

[0005] Therefore, it is an object of the invention to provide systems and methods for electronic trading whereby investors may create their own basket of securities, including both traditional securities  
20 investments as well as non-traditional securities of any sort, whether it includes securities -- i.e., instruments that show an evidence of debt or of ownership such as a stock certificate or bond -- non-securitized items -- i.e., instruments or objects that  
25 do not show an evidence or debt or of ownership -- leases, commodities, collectibles, real property lease or any other possible tradeable tangible or intangible item.

[0006] It is also an object of this invention that  
30 this basket of securities could be traded as a whole,

or in the alternative, that its individual components can be isolated and traded separate from the basket as a whole. It would further be desirable to provide systems and methods for comparing the rate of return of  
5 the dynamic security or of its individual components to a pre-determined target rate of return, and for notifying the user if the actual rate of return deviates substantially from the target rate of return.

[0007] The present invention relates to systems and  
10 methods for creating and trading dynamic securities. A dynamic security is a basket of securities composed of two or more identifiable securities, in which the dynamic security may be traded as a whole or in which the identifiable securities included in the dynamic  
15 security may be divided from the plurality of securities and sold or traded individually.

[0008] More particularly, the present invention relates to the creation of a personalized basket of securities that may be traded electronically as a  
20 whole. In the alternative, the owner of the basket of securities may isolate individual components of the basket of securities and trade them separate from the basket as a whole. The present invention may also monitor the rate of return of the dynamic security as  
25 well as the individual components of the basket of securities, and compare them to a pre-determined target rate of return. The present invention may notify the user when individual components of the dynamic security deviate substantially from the target rate.

30 [0009] It is an object of this invention to provide systems and methods for creating and trading dynamic

securities. In accordance with the present invention, systems and methods for creating and trading dynamic securities are provided.

[0010] A method according to the invention for  
5 creating a dynamic security includes selecting or  
creating a basket of securities chosen from a  
preferably pre-determined menu or list of securities  
choices. The securities listed in the menu may include  
traditional securities such as stocks, bonds,  
10 currencies, or futures. The menu may also include less  
traditional forms of securities including commodities,  
collectibles, or any other tradeable tangible or  
intangible items.

[0011] A method according to the invention for  
15 trading the dynamic security includes trading the  
entire basket of securities on an electronic exchange.  
An additional method according to the invention for  
trading the security includes isolating individual  
components of the basket of securities and trading one  
20 or more of them separate from the basket as a whole.

[0012] A method according to the invention for  
monitoring the security involves monitoring the rate of  
return of the dynamic security and of the individual  
components that constitute the dynamic security and  
25 comparing them to a pre-determined rate of return.  
When the monitored rates of return deviate  
substantially from a pre-determined rate of return, the  
system preferably notifies the user.

Brief Description of the Drawings

[0013] Further features of the invention, its nature and various advantages will be apparent from the following detailed description of the preferred  
5 embodiments, taken in conjunction with the accompanying drawings, in which like reference characters refer to like parts throughout, and in which:

[0014] FIG. 1 is an illustration of an electronic implementation of a dynamic security system in  
10 accordance with certain embodiments of the present invention;

[0015] FIG. 2 is an illustration of an interface that may be presented in accordance with certain embodiments of the present invention; and

15 [0016] FIG. 3 is an illustration of a flow diagram for the creation and trading of a dynamic security in accordance with certain embodiments of the present invention.

Detailed Description of the Invention

20 [0017] One example of systems and methods of creating and trading dynamic securities according to the invention is as follows. A user may select a plurality of securities including stocks, bonds, baseball cards and modern art paintings to create a  
25 dynamic security. A list of securities from which to choose may be provided to a user. When trading occurs within this predetermined list, the commissions for trading may be substantially reduced. The system may monitor the value of the dynamic security as well as  
30 the value of the individual securities of stocks,

bonds, baseball cards and modern art paintings. The system may periodically compare the rate of return of the dynamic security and of the individual securities to a pre-determined rate of return. If the actual rate  
5 of return deviates from the target rate of return by more than a pre-determined percentage such that the deviation is considered to be a substantial deviation, then the system may notify the user. The extent of deviation required in order to be considered a  
10 "substantial deviation" may be configured by the user or may be pre-configured by the system. At any point, the user may trade the dynamic security as a whole, or the user may isolate or separate individual securities from the plurality of securities that constitute the  
15 dynamic security and trade these isolated securities individually.

[0018] For example, a user may select 100 shares of Stock A at a price of \$10 each, 50 Bonds B at a price of \$15, one rookie card of baseball player C at a price  
20 of \$100, and one original modern art painting by artist D at a price of \$5,000. This chosen plurality of securities constitutes the user's dynamic security. The user selects a target rate of return of 20%. The system monitors the value of the dynamic security as  
25 well as the value of the individual components of the dynamic security. If the value of the dynamic security or the value of one of the individual components deviates more than 50% (as pre-selected by the user) from the targeted rate of return, the user will be  
30 notified of the deviation.

[0019] For example, suppose baseball player C is elected to the Baseball Hall of Fame, and this causes the value of C's rookie card to double in value. The system would notify the user of the dramatic increase  
5 in value of the investment since it exceeds the pre-determined 20% target rate of return by more than the pre-selected amount of 50%. Similarly, if an influential critic disparages the recent efforts of artist D and it causes the value of the modern art  
10 painting to drop in value to \$1,000, the system would notify the user of this dramatic decrease in value. In response to these developments, the user may choose to hold on to the baseball card and choose to trade the painting, or the user may pursue alternate choices.

15 [0020] The previous example was intended for purposes of illustration only. It should be understood, however, that the systems and methods according to the invention apply to any commodity that may be traded, including both traditional securities investments as  
20 well as non-traditional securities of any sort, whether it includes commodities, collectibles, or any other possible tradeable tangible or intangible item. It is most preferred that this system be implemented in an electronic trading platform. Nevertheless, the systems  
25 and methods of the invention do not necessarily require an electronic trading platform.

[0021] The present invention is now described in more detail in conjunction with Figs. 1-3.

[0022] FIG. 1 is an illustration of an electronic  
30 implementation of a dynamic security system in accordance with certain aspects of the present

invention. As shown, system 100 may include one or more user computers 102 that may be connected by one or more communication links 104 and a computer network 106 to a trading server 108.

- 5 [0023] In system 100, user computer 102 may be a computer, processor, personal computer, laptop computer, handheld computer, personal digital assistant, computer terminal, a combination of such devices, or any other suitable data processing device.
- 10 User computer 102 may have any suitable device capable of receiving user input and displaying user choices.
- [0024] Communications links 104 may be optical links, wired links, wireless links, coaxial cable links, telephone line links, satellite links, lightwave
- 15 links, microwave links, electromagnetic radiation links, or any other suitable communications links for communicating data between user computers 102 and trading server 108.
- [0025] Computer network 106 may be the Internet, an
- 20 intranet, a local area network (LAN), a wide area network (WAN), a metropolitan area network (MAN), a virtual private network (VPN), a wireless network, an optical network, an asynchronous transfer mode network (ATM), a cable network, a frame relay network, a
- 25 digital subscriber line network (DSL), or any other suitable network.
- [0026] Trading server 108 may be a processor, a computer, a data processing device, or any other suitable server capable of processing electronic trades
- 30 of dynamic securities.



[0027] All trading interactions between user computers 102 preferably occur via computer network 106, trading server 108, and communications links 104. Traders or users at user computers 102 may conduct  
5 trading transactions using suitable input devices connected to or part of user computers 102.

[0028] FIG. 2 is an illustration of an interface that may be presented in accordance with certain aspects of the present invention. As shown, interface  
10 200 may include a menu of securities 202, up and down arrows 204, price of security field 206, quantity of security field 208, up and down arrows 210, purchase button 212, basket of securities 220, up and down arrows 222, and sell button 224.

15 [0029] In order to create a dynamic security using interface 200, the user preferably first selects two or more different securities from a menu of securities 202. Up and down arrows 204 are used to scroll through the menu of securities. As the user scrolls through  
20 the menu, individual securities will be highlighted one at a time. The price of each highlighted security is displayed in field 206. The user chooses the quantity to be purchased of the highlighted security in field 208, said quantity which can be increased or decreased  
25 through the use of up and down arrows 210. Once the desired security and quantity thereof have been specified, the user may submit the purchase order by pressing purchase button 212. Once the purchase has been completed, the security will appear in the basket  
30 of securities 220. Basket of securities 220 shows the contents of the dynamic security.

[0030] In order to trade the dynamic security, the user can sell the entire basket of securities 220 by highlighting the entire collection of securities in field 220 and pressing sell button 224. Alternatively,  
5 the user can sell individual securities by selecting individual securities from field 220 through the use of the up and down arrows 222. Once the desired individual security has been selected from field 220, the user may complete the sale by pressing sell button  
10 224.

[0031] FIG. 3 is an illustration of a flow diagram for the creation and trading of a dynamic security in accordance with certain aspects of the present invention. As shown, a system and methods of creating  
15 and trading dynamic securities 300 may include displaying a menu or list of securities 302, and allowing the user to create a dynamic security by selecting a plurality of securities from the menu or list of securities 304. This preferably pre-selected  
20 list may be pre-selected so as to allow securities providers to offer their securities as part of a dynamic security for reduced or otherwise altered commissions.

[0032] The system and methods 300 may monitor the  
25 trading price of the dynamic security 306 or monitor the trading price of individual securities that are included in the dynamic security 308. Step 310 involves comparing the rate of return on investment of the dynamic security to a pre-determined target rate of  
30 return. Such comparison allows the user to evaluate the growth of the dynamic security and to compare its

progress toward a target return. Step 312 performs a similar comparison on the individual securities that constitute the dynamic security. The user is notified in Step 314 and Step 316 when securities deviate

5 substantially from the pre-determined target rate. Such notification may occur when the value of the security rises considerably, which may prompt the user to sell at a great profit or pursue some other course of action. Such notification may also occur when a

10 security stagnates for a considerable time or when it decreases substantially in value, which may prompt the user to sell the security or pursue some other course of action. In either case, the volatile security of interest is brought to the attention of the user.

15 [0033] If the user decides to sell a security, Step 318 allows the user to trade either the entire dynamic security or else to trade the individual securities that constitute the dynamic security. At any time, the user may return to the beginning 302 and add securities

20 to the basket of securities.

[0034] In one preferable embodiment of the invention, a dynamic security may be referred to by alpha-numeric indicators. These indicators may correspond to individual securities. For example, a

25 security may be designated  $100\alpha\beta32$  wherein the  $100\alpha$  corresponds to 100 shares of IBM stock, the  $\beta$  corresponds to 1 Henry Aaron rookie baseball card and the 32 corresponds to 32 '07 United States Treasury Bonds. The security is identified as  $100\alpha\beta32$  and that

30 is how it is traded. Alternatively, the security  $100\alpha\beta32$  can be broken down into component parts and

traded separately -- e.g.,  $100\alpha$ ,  $\beta$ , 32 or in some other  
suitable combination. The total number of different  
securities in a dynamic security may be user-configured  
or may be pre-set by the security provider to be  
5 limited to a particular number.

[0035] Accordingly, systems and methods for creating  
and trading dynamic securities are provided. It will  
be understood that the foregoing is merely illustrative  
of the principles of the invention and that various  
10 modifications can be made by those skilled in the art  
without departing from the scope and spirit of the  
invention, with is limited only by the claims that  
follow.